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SUBJECT: LIEN, SOONG VISITS - TAIWAN BUSINESS LEADERS
QUIET, INVESTORS OPTIMISTIC

Classified By: AIT Director Douglas H. Paal, Reason 1.4 d

Summary

1. (SBU) Few Taiwan business leaders have reacted publicly to the visits of opposition party leaders Lien Chan and James Soong to the PRC. In private, their reaction has varied broadly from enthusiastic optimism to frustrated skepticism. The Taiwan Stock Market has shown some gains recently that may be due in part to the visits. However, other factors have also played a significant role, and any gains due to cross-Straits factors may be short lived. There has been a stronger impact on food and tourism industry stocks. It will take more concrete progress on cross-Straits relations that involves Taiwan's ruling Democratic Progressive Party (DPP) before we see a more vocal reaction in the business community and more permanent gains in the stock market. End summary.

Business Leaders

2. (U) The response in Taiwan's business community to recent cross-Straits developments, particularly the visits of Kuomintang (KMT) leader Lien Chan and Peoples First Party (PFP) leader James Soong to the PRC, has been quiet. Most business leaders have not commented publicly on the events. Notable exceptions include Formosa Plastic Group Chairman Wang Yung-ching, who told the press after the Lien visit that he did not see any noticeable changes in the development of cross-Straits relations as a result of the visits. Powerchip Chairman Frank Huang, on the other hand, told reporters that he believed the Lien and Soong visits had reduced cross-Straits tensions and showed more flexibility from Beijing. Some business leaders have continued calls on the Taiwan government to further liberalize cross-Straits economic relations. In a May 9 breakfast meeting with Premier Frank Hsieh, the leaders of Taiwan's major industrial associations reportedly called on the Taiwan government to seek a consensus on cross-Straits issues and expand economic liberalization.

3. (C) Privately, reaction from members of the business community has ranged broadly from enthusiastic optimism to frustrated skepticism, some probably colored by political inclinations as well as a reasoned assessment of the impact of the visits. Just after the Lien visit, Chairman of Yulong Motors Ken Yen was very enthusiastic about the potential results in a meeting with AIT/T. He noted Lien had received a warm welcome and that the people of Taiwan were emphasizing the desire to keep the status quo and not push for independence. Earle Ho, Chairman of Tung Ho Steel and Chairman of the Chinese National Federation of Industries (CNFI), more recently told AIT/T that it was still too early to tell what kind of positive economic impact there might be as a result of the two visits. He will travel to the PRC the week of May 16 and hopes to have a better understanding of prospects for real progress after visiting Beijing. Chinese National Association of Industry and Commerce (CNAIC) Deputy Secretary General George Lin had a similar reaction, indicating he needed more time to assess the reaction of association members. Tsai Horng-ming, Deputy Secretary of CNFI, was much more negative on the prospects for progress. He foresaw no concrete results from the visits and called them nothing but political games. Tsai added that he did not understand why the U.S. supported these visits.

Market Reaction

4. (U) Taiwan markets appear to have shown some positive reaction to the Lien and Soong visits. The Taiwan Stock Exchange TAIEX index rose 223 points, or 3.9 percent, from its close on April 25, the eve of Lien's departure for the PRC, to its close May 13, the day of Soong's return to Taiwan. U.S. markets and other markets in the region that often closely track the Taiwan Stock Exchange did not perform as well during the period. In the U.S., the Dow Jones Industrial Average lost ground, while the NASDAQ composite gained only 1.3 percent during the period. In

Asia, Hong Kong's Hang Seng Index gained only 0.8 percent and the South Korean market index declined.

15. (C) However, some analysts believe that recent overall increases in the stock Taiwan market are due primarily to other factors. Chen Miao, Senior Economist at the Taiwan Institute of Economic Research (TIER) and Huang Wen-jur, Senior Consultant at SinoPac Securities, both told AIT/T that they believed that positive economic and market performance in the U.S. was a major factor. SinoPac's Huang also pointed out the strong influence of foreign portfolio investors and the decision of Morgan Stanley International Capital to add nine companies to its Taiwan Standard Index and increase the weight of Taiwan stocks in its international index at the end of May. Moreover, the Taiwan market index continues to be down from March and early April. Even March 15, the day after the PRC's passage of the Anti-Secession Law, the TAIEX closed at 6063.48 -- higher than its May 13 close.

16. (U) There appears to have been a more decisive reaction among stocks in the food and tourism industries as a result of the PRC's announcements that it would liberalize agricultural imports from Taiwan and Mainlander travel to Taiwan for tourism. Food industry stocks rose 5.9 percent during the April 25-May 13 period. Tourism stocks were up 16.6 percent. A smaller increase for transportation stocks -- up just 1.2 percent -- suggests that investors may be less optimistic about the chances for progress on direct transportation links. (Note: AIT will report septel on the potential impact of the PRC proposals for agriculture and tourism. End note.)

Comment - Waiting for More

17. (C) The muted public response in the business community is not unexpected. PRC pressure on Taiwan investors in the Mainland such as Chi-Mei's Hsu Wen-lung has caused many business leaders to emphasize their political neutrality back in Taiwan as evidenced by Acer founder Stan Shih's recent decision to resign as one of President Chen Shui-bian's advisors. More importantly, as many have observed, these meetings are unlikely to have a significant effect on the economy or cross-Strait trade and investment until the Taiwan government gets involved.

18. (C) In addition, the apparent positive stock market reaction may turn out to be short lived. We are likely to see some price corrections as real economic results fail to materialize from these positive political developments. If the PRC and DPP move closer to a dialogue or the DPP and opposition parties can achieve a consensus on how to approach cross-Strait relations, then we can expect to see more long-term gains in the stock market as well as a more vocal and enthusiastic response from business leaders. End comment.

PAAL